

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 SS-15 SP-02 EB-07 INR-07 /042 W

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R 110545Z JUL 75  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC 1506

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EA/J FOR SHERMAN

E.O. 11652: N/A  
TAGS: EGEN, PFOR, JA  
SUBJ: MIKI VISIT PAPER: JAPAN'S CURRENT ECONOMIC SITUATION

1. JAPAN'S ECONOMY IS ESSENTIALLY STRONG BUT HAS UNDERGONE  
SEVERE STRAINS OF RAMPANT INFLATION AND MOST SEVERE RECESSION  
IN POST WAR HISTORY. MAIN POINTS ARE AS FOLLOWS:

2. INFLATION--STILL DOUBLE DIGIT. GOJ HAS SUCCEEDED IN  
MEETING ITS TARGET TO REDUCE 12 MONTH CPI INCREASE TO BELOW  
15 PERCENT (ACTUAL INCREASE: 14.2 PERCENT) FOR FISCAL YEAR  
ENDING MARCH 31. INCREASE DURING PREVIOUS FISCAL YEAR WAS  
24 PERCENT. RATE OF INFLATION DURING APRIL-JUNE APPEARS  
TO HAVE REMAINED ABOUT 14 PERCENT. GOJ WILL BE HARD-PUT  
TO MEET ITS GOAL OF HOLDING 12 MONTH CPI INCREASE FOR  
PERIOD ENDING MARCH 31, 1976 BELOW 10 PERCENT.

3. RECESSION--HAS APPARENTLY TOUCHED BOTTOM. IMPORTANT  
INDICATORS HAVE TURNED AROUND: UNEMPLOYMENT HAS BEEN  
DECLINING AND INDUSTRIAL PRODUCTION HAS BEEN INCREASING  
SLOWLY SINCE FEBRUARY.

4. RECOVERY--WILL BE SLOW. GOJ FORECASE 7 PERCENT ANNUAL  
REAL GNP GROWTH RATE FOR AUGUST-DECEMBER 1975 (AT OECD  
ECONOMIC POLICY COMMITTEE JUNE 20) BUT THIS SEEMS A  
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BIT TOO HIGH. SUCCESSIVE REDUCTIONS IN THE CENTRAL  
BANK DISCOUNT RATE (TO 8 PERCENT) HAVE NOT YET PRODUCED  
VISIBLE RESULTS. ALTHOUGH INVENTORIES HAVE BEEN REDUCED  
SOMEWHAT, CONSUMER DEMAND IS LAGGING AND MID-YEAR BONUSES

APPEAR TO BE SMALLER THAN USUAL. REAL BUSINESS INVESTMENT FOR 1975 IS EXPECTED TO BE WELL BELOW LAST YEAR, AND GOVERNMENT SPENDING HAS NOT TAKEN UP THE SLACK. TIMING OF RECOVERY IS THEREFORE HIGHLY UNCERTAIN, WITH ESTIMATES OF DEFINITE UPTURN RANGING FROM THIRD QUARTER 1975 TO SECOND QUARTER 1976. UNCERTAINTY SURROUNDING RESUMPTION OF UPSWING CLOUDS PICTURE OVER NEXT 2-3 YEARS, MAKING ACCURATE PROJECTIONS OF REAL GROWTH QUITE DIFFICULT. MOST LIKELY PROSPECT IS FOR ZERO-2 PERCENT REAL GNP GROWTH CY 1975 OVER 1974 FOLLOWED BY 4-6 PERCENT 1976 OVER 1975, ASSUMING: (A) SLUGGISHNESS CONTINUES INTO FALL '75, (B) GOJ ADOPTS MILDLY STIMULATIVE MEASURES WHICH TAKE EFFECT THEREAFTER, AND (C) NO DRASTIC PRICE INCREASE OR INTERRUPTION OF OIL IMPORTS.

5. MEDIUM TERM GROWTH--RETURN TO MIRACLE GROWTH RATES (10-15 PERCENT) IS NOT IN THE PICTURE IF PRESENT POLICIES ARE MAINTAINED, DESPITE SOME UNHAPPINESS IN BUSINESS CIRCLES WITH SLOWER-GROWTH PROJECTIONS. WHEN GROWTH RESUMES IT IS LIKELY TO BE IN 4-6 PERCENT RANGE. CONSTRAINTS MOST OFTEN CITED ARE: NEED TO MODERATE CONSUMPTION OF RAW MATERIALS; DOMESTIC CONCERN ABOUT POLLUTION AND QUALITY OF LIFE; AND LABOR SUPPLY.

6. TRADE--JAPAN, WHICH MUST TRADE TO LIVE, SHARES U.S. COMMITMENT TO OPEN WORLD TRADING SYSTEM AND IS DETERMINED TO WORK FOR SUCCESSFUL CONCLUSION OF CURRENT TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS. DESPITE OVER \$13 BILLION ADDED TO IMPORT BILL BY INCREASED OIL PRICES, JAPAN HAS MAINTAINED TRADE SURPLUS FOR EACH OF 12 MONTHS ENDING MAY '75. RECESSION HAS DAMPENED IMPORTS, INCLUDING THOSE FROM U.S.; U.S. SHARE OF JAPAN'S TOTAL TRADE HAS SLIPPED TO ABOUT 20 PERCENT (FROM 25 PERCENT IN 1973); WE SUPPLIED 21.5 PERCENT OF ITS IMPORTS AND TOOK 19 PERCENT OF ITS EXPORTS IN FIRST FOUR MONTHS OF 1975. JAPAN'S INCREASED EXPORTS (UP 50 PERCENT IN CY 1974 OVER 1973) HAVE LIMITED OFFICIAL USE  
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NOT BEEN AIMED AT U.S. FOR FIRST FOUR MONTHS OF 1975 GOJ STATISTICS SHOW 2.5 PERCENT INCREASE IN EXPORTS TO U.S. OVER JAN.-APR. 1974, COMPARED WITH 27 PERCENT INCREASE TO EC AND 28.5 PERCENT INCREASE TO DEVELOPING AREAS. TRADE WITH LDC'S HAS RISEN AS SHARE OF JAPAN'S TOTAL TRADE--IMPROTS TO 54 PERCENT AND EXPORTS TO 48 PERCENT AS OF FIRST QUARTER OF 1975. PROSPECTS ARE FOR JAPAN'S TRADE AND PAYMENTS POSITION TO REMAIN STRONG IN NEAR TERM, WITH YEA MAIN- TAINING APPROXIMATELY CURRENT STRENGTH VIS-A-VIS DOLLAR.

7. INVESTMENT--OVERSEAS INVESTMENT HAS BEN

LAGGING DUE TO WORLD RECESSION AND SOME TEMPORARY RESTRAINTS IMPOSED FOR BALANCE-OF-PAYMENTS REASONS; IT IS EXPECTED TO PICK UP WHEN RECOVERY BEGINS AND QUADRUPLE (FROM \$10 BILLION TO OVER \$40 BILLION) BY 1980. MUCH WILL BE DIRECTED TO DEVELOPING COUNTRIES. JAPANESE INVESTMENT IN U.S., CURRENTLY ESTIMATED ABOUT \$2 BILLION, CAN ALSO BE EXPECTED TO INCREASE SUBSTANTIALLY IN COMING YEARS. GOJ IS FOLLOWING ITS SCHEDULE FOR LIBERALIZING RESTICTIONS ON INWARD INVESTMENT. POSSIBILITY OF 100 PERCENT FOREIGN OWNERSHIP OF FIRST IN JAPAN NOW EXISTS IN MOST INDUSTRIES.

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 26 AUG 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC STABILITY, INFLATION, PAPERS, TRADE, MINISTERIAL VISITS, INVESTMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 11 JUL 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** izenbei0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975TOKYO09304  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** n/a  
**Film Number:** D750239-0826  
**From:** TOKYO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t197507103/baaaafqw.tel  
**Line Count:** 123  
**Locator:** TEXT ON-LINE, TEXT ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** izenbei0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 16 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <16 JUL 2003 by BoyleJA>; APPROVED <18 NOV 2003 by izenbei0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** n/a  
**TAGS:** EGEN, PFOR, JA, (MIKI, TAKEO)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006